HOUSING MARKET OUTLOOK

Canada Mortgage and Housing Corporation
www.cmhc.ca

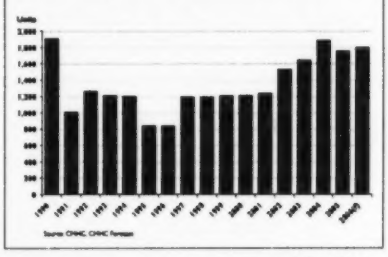
New Home Market

Single-detached starts face constraints in 2006 due to lot supply issues

The single-detached construction sector over the past two years has posted its best performance in 15 years. In 2004, thanks to low mortgage rates, a strong economy and household growth, single-detached starts reached 1,882 units, their highest point since 1990. In 2005, while the demand factors continued to be solid, a lack of serviced lots in parts of the city caused starts to pull back by seven per cent to 1,756 units. While single-family starts have started this year quickly out of the gate staying ahead of last year's totals, there are signs that this pace may not be sustained. Once again the risks to the forecast are not on the demand side of the equation. Many of the conditions that have driven single-family housing starts back up to the historical average and helped the industry recover from the prolonged downturn of the last decade are still in place. Although this past year has seen reduced levels of population growth due to increased out-migration, housing starts have failed to keep pace with household growth over the past few years creating a significant amount of pent-up demand. Due to an insufficient supply of listings in the resale market, new and existing households looking for accommodation will continue to spill over into the new home market. With these factors expected to hold firm demand for new single-family homes should remain strong over the next few years.

The downside risk to the forecast lies in the ability of builders to respond to this strong demand. With single-family starts on the increase over the last few years, the current supply of building lots has been eroding. Existing subdivisions originally developed in the 1980's and 1990's had been selling off lots at a much slower rate during the mid-1990's. Capacity appeared to be adequate to supply the industry for several years to come when housing starts had slowed to a rate of 800 to 900 units per year in the city of Winnipeg during the mid-1990's. When activity quickened, almost doubling to 1,400 homes per year, this capacity quickly eroded. Builders are now raising concern over this dwindling supply, particularly in the historically more active south-west quadrant where two major subdivisions, Linden Woods and Whyte Ridge are almost completely sold out. Starts within the south-west quadrant in 2005 were down 43 per cent

Figure 1
Single Detached Housing Starts



WINNIPEG

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compared to 2004 and builders cite a lack of available lots as the reason. Even in the south-east quadrant, supply is dwindling, especially in South St. Vital where subdivisions there are also approaching full build-out. Starts in the south-east quadrant were down 20 per cent in 2005. The fact that starts in the northern quadrants are up 54 per cent is evidence that demand for new homes is not dwindling. If serviced lots were available to builders, they would likely be able to maintain the market share of the historically more popular southern quadrants of the city and see an increasing number of starts.

Developers are responding to the lack of supply of serviced lots by bringing forward new subdivision plans for municipal approval. Subdivisions currently in development include River Ridge in the north-west, Harbourview Phase II and Transcona West in the north-east, South St. Boniface in the south-east, and a new phase in Richmond West in the south-west. However, expectations as to when the major south-west quadrant development of Waverly West will break ground have been pushed back to 2007 at the earliest. This is of particular concern, as the south-west quadrant garnered 36 per cent of the market share within the city between 1999 and 2004. With fewer building lots to choose from, this market share dropped to 22 per cent in 2005. There is evidence that the popularity of this quadrant has not dwindled as developers consulting the public on the Waverley West development are citing that many of the attendees of their open houses are anxious to purchase within the subdivision. This may lead to a certain amount of deferred demand for 2006 as potential new home buyers may be waiting for a choice lot in a new development before making their move into the market. This pent up demand will have to wait until 2007-2008 before builders will be able to respond.

Starts in the rural municipalities of the Winnipeg CMA are expected to recover after having faltered in 2005. Single-family starts in these surrounding communities were down almost 20 percent in 2005. In the traditionally more active municipalities of East St. Paul and Headingley, starts were down 40 per cent in 2005 in comparison to 2004. These centres were also facing the selling out of previously developed subdivisions while awaiting a new supply of building lots. Other active rural municipalities such as Springfield, St. Clements, Taché and Ritchot were able to maintain starts in 2005 to the same levels set in 2004. This trend should continue in 2006 as new housing demand will remain high and these communities are successfully marketing new subdivisions to those looking for a quasi-rural lifestyle.

Consequently, while areas outside the city of Winnipeg limits will maintain the building pace, conditions within the city will have builders struggling to keep starts at last year's levels In addition to concerns over lot supply during the peak building months, concerns over skilled labour shortages still persist. Local builders continue to compete with other sectors and locales to maintain their skilled trades workforce. Single-detached starts for the entire Winnipeg CMA are therefore expected to remain flat in 2006, reaching 1,800 units.

Table 1
New Home Market Information
Housing Starts
January - December (% Change from 2004/2005)

	Single-family			Multiple-family			Total starts		
CMHC's Survey Zones	2005	2004	% change	2005	2004	% change	2005	2004	% change
Zone 1: Fort Rouge	7	5	40.0%	18	0	***	25	5	***
Zone 2: Centennial	27	5	***	105	0	***	132	5	***
Zone 3: Midland	19	7	***	0	0	***	19	7	***
Zone 4: Lord Selkirk	49	3	***	2	2	***	51	5	***
Zone 5: St. James-Assiniboia	18	13	38.5%	0	313	***	18	326	-94.5%
Zone 6:West Kildonan	292	183	59.6%	0	2	***	292	185	57.8%
Zone 7: East Kildonan	135	113	19.5%	96	0	***	231	113	***
Zone 8:Transcona	118	86	37.2%	2	0	***	120	86	39.5%
Zone 9: St. Boniface	297	323	-8.0%	84	24	***	381	347	9.8%
Zone 10: St.Vital	210	305	-31.1%	241	112	***	451	417	8.2%
Zone 11: Fort Garry	162	265	-38.9%	22	39	-43.6%	184	304	-39.5%
Zone 12:Assiniboine Park	66	132	-50.0%	224	81	***	290	213	36.2%
Winnipeg City	**1,400**	**1,440**	**-2.8%**	**794**	**573**	**38.6%**	**2,194**	**2,013**	**9.0%**
Surrounding Rural Municipalities	356	442	-19.5%	36	34	5.9%	392	476	-17.6%
Winnipeg CMA	**1,756**	**1,882**	**-6.7%**	**830**	**607**	**36.7%**	**2,586**	**2,489**	**3.9%**

Source: CMHC
***Indicates change greater than 100 per cent

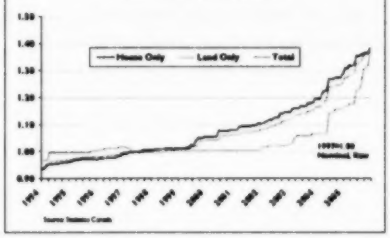
Upward pressure on the average new home price

The average new house price for 2005 was $252,252, an increase of nine per cent over 2004. Average new home price is facing upward pressures on many fronts in Winnipeg. Firstly, an increasing market share of homes in the upper price ranges is raising the overall average. The market share of homes priced above $300,000 increased from 17 per cent in 2004 to 22 per cent in 2005. There has also been an upward shift in the price range of the largest market segment. In 2004, about 38 per cent of all absorptions occurred in the $150,000 to $200,000 range. In 2005, this range shifted up to $200,000 to $250,000 range, accounting for about 31 per cent of all absorptions. With much of the demand for new homes expected to continue to come from the move-up market, activity at the upper end of the price spectrum will remain strong, thereby maintaining an upward pressure on average price.

Secondly, while the increased activity at the upper end of the spectrum affects the composition of the average, the cost of new home construction has also risen. As in the rest of the country building material costs have escalated, as has the cost of labour, especially in an increasingly competitive market. The New Home Price Index (NHPI) published by Statistics Canada provides a measure of new home price regardless of market share. On average, the new home price index increased by five per cent across Canada in 2005 compared to 2004. In Winnipeg, however the increase was 8.5 per cent, the highest of all surveyed Census Metropolitan Areas. The "House Only" component of NHPI reflects materials and labour costs, which in Winnipeg recorded an increase of 7.6 per cent, second only to the increase recorded in Calgary and 2.6 percentage points higher than the national average of five per cent. The "Land Only" component of the NHPI in Winnipeg recorded an average increase of 11 per cent in 2005, the greatest increase of all Canadian CMAs, and the greatest year-over-year increase for Winnipeg since the early 1980's. This is evidence that lot scarcity is having an impact on new home prices.

With upward pressure on prices coming from all fronts, including land, labour and materials, expect that average new home price will continue to increase at a pace greater than the rate of inflation. New supplies of serviced lots in the next couple of years, however, should help to dampen increases in land prices. While increased costs coupled with increasing borrowing rates may have a dampening effect on demand in 2006, pent-up demand continues to be a factor in the Winnipeg market. The number of new housing starts has not caught up to the number of new households and selection in the resale market remains extremely low. With new home demand coming from the move-up market there will also be continued interest in homes at the upper end of the spectrum. Average new home price for 2006 is forecasted to increase by nine per cent to hit $275,000.

Figure 2
New Home Price Index

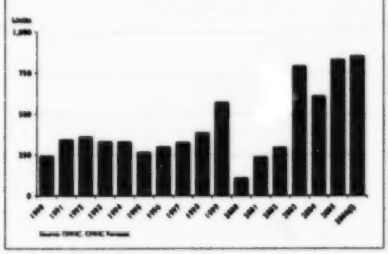


Multiple-family starts to remain high

Multiple-family starts have seen resurgence over the last few years, and the 830 units started in 2005 marked the third consecutive year that starts numbered more than 600 units. The average during the previous decade of the 1990's was 344 units per year. Therefore the recent upsurge of activity represents a recovery of this sector after a prolonged slump. The types of multi-family units being constructed have also varied considerably over these past few years. The tenure type in 2005 was divided between rentals geared specifically for seniors with 358 units, condominiums with 344 units, and open market rental with 116 units.

Activity is expected to remain strong in various tenure types as demand crosses all markets. Demographics indicate that while the peak of the population is now in the move-up market, the front wave of the post-war baby boom is moving into the adult lifestyle market pushing demand for 55+ condominiums. There is also demand for condominiums coming from first-time buyers who are facing limited choice in the resale market and ever increasing prices for new single-detached homes. Condominiums, especially row condominiums have presented a more affordable alternative for this market segment. Rental vacancy rates also remain relatively low, especially in the mid-range of the market prompting a need for new construction. Discussions with industry, indicated that the aging population has also created a need beyond the adult lifestyle market as the parents of the post-war baby boom generation are now looking for housing with additional amenities that help bridge the gap between independent living and medical care facilities.

Figure 3
Multi-family Housing Starts



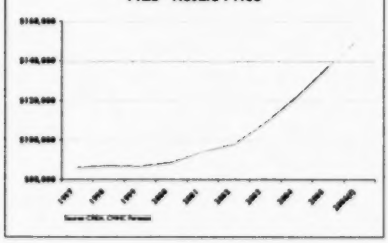
Projects continue to come forward to respond to these various segments of the market. A good indicator of future activity is in the number of potential housing units in multiple-family projects that have recently received municipal land-use approvals. Within the city of Winnipeg, this number now surpasses 3,000. Many of these units are in condominium projects that are currently pre-selling and will begin construction once a certain sales threshold is reached. There are also several rental projects that are poised to begin construction. It is therefore expected that multiple-family construction in Winnipeg will remain at the current levels for a few years to come, with 850 units breaking ground in 2006.

RESALE MARKET

Sellers' market conditions translate to price gains

The Winnipeg resale market finished 2005 with a record 11,415 sales, an increase of almost six percent from 2004. The first three months of 2006 do not indicate that activity is slowing down, as first quarter sales are up three per cent over last year. Pent-up demand continues to be a factor as the number of active listings, while rising modestly, is not high enough to meet demand. The Winnipeg Real

Figure 4
MLS® Resale Price



Estate Board reports that many buyers are having to make offers on several different homes before finally becoming the successful bidder. In March, 55 per cent of all single-detached homes sold at or above list price.

Winnipeg's demographic make-up also favours demand for resale homes as two significant groups are influencing the market. The peak of the post-war baby boom generation is firmly in the move-up market and, as with the new home market, growth in resale activity is occurring at the upper end of the market. The other important demographic group is the children of this generation who are now becoming first time homebuyers and continue to be encouraged by historically low, albeit rising mortgage rates. These two groups will continue to influence sales growth in 2006. With stronger out-migration to other provinces, growth in the number of new households will slow in the coming year, easing the amount of new demand for homes. However, with a significant amount of pent-up demand created by previous migration gains, there are still many households waiting to enter the market and are being held back by the low number of listings.

With listings not rising to sufficiently meet demand, sellers' market conditions prevail and prices continue to increase. Average MLS® price in the Winnipeg CMA reached $137,062 in 2005, an increase of 12 per cent and the third consecutive year of double-digit price increases. These increases have not moderated since the beginning of 2006 as the year-to-date average price in February was $145,186, up 18 per cent over the average price for the same period in 2005. Increasing sales at the top end of the market will continue to influence the average price as sales above $200,000 now represent one quarter of all home sales. The forecast for the remainder of the year is for continued price increases with average price surpassing the $150,000 mark by the end of the year and hitting $152,000 for another double-digit annual increase of 11 per cent.

Rising prices will begin to affect demand for the segment of the population becoming first time home buyers. While dropping mortgage rates have helped to cushion rising prices in the past, interest rates have now flattened out and will begin to rise modestly over the forecast period. This not only removes the cushion for buyers but will now compound the impact of rising prices by further increasing carrying costs. However, with move-up buyers expected to capitalize on equity gains over the previous years, these rising carrying costs may have little impact on the demand for larger more expensive properties. For the first time homebuyer waiting to get into the market, increasing prices and interest rates may cause them to defer their decision to buy or make a less expensive purchase. Anecdotal evidence suggests that there is still a significant amount of pent-up demand among first-time buyers, whose entry into the market has been thwarted by a lack of listings. There are likely enough of these buyers whose desire for a home is strong enough, and their financial situation stable enough that they will bear the increasing prices. Therefore the resale market will continue to post increases in activity posting another five per cent increase in 2006.

RENTAL MARKET

More renters move to homeownership

The apartment vacancy rate in the Winnipeg Census Metropolitan Area (CMA) is expected to increase from 1.7 per cent in October 2005 to 2.2 per cent in October 2006. While international migration remains strong, inter-provincial migration has dipped deeply into negative territory and will likely stay there for the near term as Winnipeggers will be attracted to the active job markets of Alberta and

British Columbia. Since many of those leaving the province will be from the more mobile younger age categories who are typically renters, more vacant apartments will go unfilled. Rental supply is not expected to grow significantly for next year's survey; therefore an expected easing of the vacancy rate will not come from an increase in rental supply but from a greater number of renters moving into home-ownership and fewer new renters entering the market.

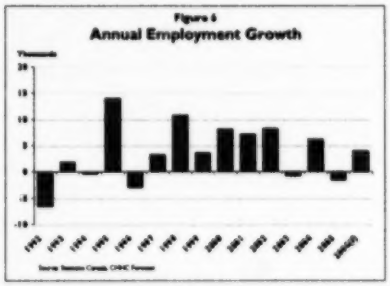
Upward pressure on average rent continues

With the vacancy rate remaining relatively low, and utility costs still on the rise, landlords will likely increase rents to the full extent of the 2.5 per cent rent control guideline as set for 2006. Average rents will rise at a higher rate however due to a number of factors. While the guideline has been set higher for 2006 to reflect an increase in the rate of inflation, the operating and maintenance costs being borne by the landlord will likely increase at a greater rate given the advancing age of Winnipeg's rental stock. The Residential Tenancies Branch will therefore continue to receive applications from landlords to increase rents at a rate above the guideline to cover these higher costs. The newly renovated units that will be returned to the inventory next year will likely command higher rents, which will have the effect of pushing up the overall average. In addition, other recently rehabilitated units added back to the universe will continue to enjoy an exemption from the guideline and landlords may raise rents above the 2.5 per cent rate.

ECONOMIC OVERVIEW

Employment growth recovers from weakness in 2005

Economic conditions in Winnipeg remain favourable for housing demand. While some of the 6,200 job gained in 2004 were countered by a loss 1,600 jobs in 2005, the overall unemployment rate in Winnipeg was 4.9 per cent, nearly two percentage points below the national average of 6.8 per cent. Going forward, while a lack of skilled labour will constrain overall job growth in 2006, the Winnipeg CMA should look forward to a modest gain of 3,300 new positions. A tight labour market will result in additional income gains. Average weekly earnings were artificially suppressed to a 1.6 per cent gain in 2005 as part-time positions were created at the expense of full-time jobs. The combination of job and income gains should help feed consumer confidence and personal consumption on big ticket items such as housing.



MORTGAGE RATE OUTLOOK

The monetary tightening cycle will continue at a moderate pace in the U.S. and Canada for the rest of 2006. Both short and long-term interest rates are expected to increase by 25-50 basis points in Canada and the U.S. during the remaining months of this year. While still low by historical standards, Canadian mortgage rates are expected to rise in line with corresponding interest rates in 2006. One and five-year mortgage rates are forecast to be in the 5.75-6.75 and 6.25-7.25 per cent range respectively in 2006.

CMHC MANITOBA HOUSING OUTLOOK CONFERENCE

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NOVEMBER 14, 2006
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FORECAST SUMMARY

Winnipeg Census Metropolitan Area

Spring 2006

	2003	2004	%Chg	2005	%Chg	2006(f)	%Chg
RESALE MARKET							
MLS®([1]) new listings (Monthly Avg.)	1,001	1,098	9.7%	1,167	6.3%	1,250	7.1%
Total MLS® Sales	10,201	10,797	5.8%	11,415	5.7%	12,000	5.1%
Average MLS® Price	$108,812	$121,925	12.1%	$137,062	12.4%	$152,000	10.9%
NEW HOME MARKET							
Starts							
Total	2,430	2,489	2.4%	2,586	3.9%	2,650	2.5%
Single-family	1,641	1,882	14.7%	1,756	-6.7%	1,800	2.5%
Multiple-family	789	607	-23.1%	830	36.7%	850	2.4%
Average New House Price							
Single-family	$216,458	$232,032	7.2%	$252,252	8.7%	$275,000	9.0%
RENTAL MARKET							
Vacancy rate (Oct)	1.3	1.1		1.7		2.2	
2-bedroom Rent (Annual % Chg)	3.7	3.0		2.9		3.3	
ECONOMIC OVERVIEW							
Mortgage rate (3 yr term)	4.84	4.59		5.06		6.27	
Mortgage rate (5 yr term)	6.39	6.23		5.99		6.78	
Employed	370,100	376,300	1.7%	374,700	-0.4%	378,000	0.9%
Employment growth (# jobs)	-800	6,200		-1,600		3,300	
Net-migration (Census Year [2])	1,688	3,466	105.3%	2,645	-23.7%	2,700	2.1%

Source: CMHC, Statistics Canada, Canadian Real Estate Association, CMHC Forecast

1 Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association

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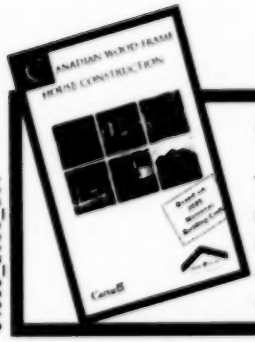

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